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CURRENT SUPPORT BRIEF

BULGARIAN CURRENCY AND EXCHANGE REFORM

OFFICE OF RESEARCH AND REPORTS

CENTRAL INTELLIGENCE AGENCY

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BULGARIAN CURRENCY AND EXCHANGE REFORM

On 1 January 1962, the Bulgarian Council of Ministers effected a currency and exchange reform similar to that carried out in the Soviet Union one year earlier. The reform consists of : 1) a 90 percent reduction of all prices and wages, as well as all other incomes and savings, concurrent with the issuing of one new "heavy" lev for ten of the leva previously in use; and 2) establishment of a new lev gold content of 0.759548 grams of "pure gold" which is an increase of 5.8 times over the previous lev gold content (0.130687). The new exchange rates are therefore 1.3 leva for 1 ruble and 1.17 leva for 1 U.S. dollar.* Non-commercial exchange rates** vis-a-vis other bloc countries have been changed in a 10 to 1 ratio reflecting the change in the Bulgarian internal price level. The non-commercial rate for non-bloc currencies has been abandoned and no tourist or other premiums will be granted.

The revisions which have taken place are given in the following table.

Table

Bulgarian Lev: Gold Content and Exchange Rates

	Gold Content (grams)	Exchange Rate Leva Per Ruble Commercial	Exchange Rate Leva Per Ruble Non-commercial	Exchange Rage Leva Per Dollar Commercial	Exchange Rage Leva Per Dollar Non-commercial
Revised as of 1 Jan. 1962	0.759548	1.3	.89	1.17	1.17
1 Jan. 1961- 1 Jan. 1962	0.130687	7.56	8.9	6.8	9.52
Prior to 1 Jan. 1961	0.130687	1.7	.89	6.8	9.52

The internal currency reform combined with the gold content revision--much like the revision of the Soviet ruble a year before--is effectively a devaluation of the country's currency with respect to Western currencies, but an appreciation in relation to the ruble. As the table above indicates, this appreciation amounts to 24 percent of the pre-1961 intra-bloc exchange rates for commercial purposes: 1.3 lev is now equivalent to one ruble compared with 1.7 prior to 1961. The devaluation of the previously existing noncommercial rates with Western countries amounts to 23 percent: (1.17 vs 0.952). Thus,

* Gold content of the ruble - 0.987412 grams
Gold content of the dollar - 0.8886705

** Non-commercial expenditures include travel, Embassy expenditures, communications and postal fees, pensions, royalities, and related expenditures. Commercial exchange rates are used for such transactions as the purchase and sale of commodities and services directly related to commodity trade.

despite the abandonment of the noncommercial exchange rate premium vis-a-vis the dollar and other Western currencies, the new rate will in fact result in a 23-percent reduction of dollar expenses of Western tourists and diplomats in Bulgaria. The non-commercial rate system with respect to bloc currencies remains the same as it was previous to 1 January 1961.

The new rates may be regarded as an attempt by Bulgaria to reflect more realistically the internal lev purchasing power in terms of foreign currencies. Indeed, the new lev-dollar ratio is very close to United States estimates of purchasing power parity. The dual rate system vis-a-vis bloc currencies may have been retained pending other satellite currency and exchange reforms.

Inasmuch as the lev is not utilized in international settlements, the establishment of new exchange rates has no direct effect on Bulgarian foreign trade relations. Adoption by other satellites of similar currency and exchange reforms, however, would facilitate the task presently faced by bloc economists and planners of making international comparisons of aggregative economic data, and of finding some standard for evaluating relative costs among industries internationally. For such determinations, however, basic revisions of bloc prices and costs would be required.

Another reason for the foreign exchange reform is the resultant simplification of internal financial accounting of foreign trade. By equalizing the price level of imports and exports, converted to domestic currency at the official rate, with the internal price level of these goods, it becomes unnecessary to finance large paper losses on exports from the state budget, or to channel similar profits on imports to the budget.

Bulgaria's current foreign exchange and currency reform might well herald similar actions by other East European nations.

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Analyst: [redacted]

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Sources:
1. State, Sofia, Telegram No. 17493, 31 December 61. OUO.
2. [redacted]
3. CIA. CIA/RR CB-60-25, 9 May 60. C.

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